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REVIEW OF THE EFFICIENCY OF THE ADMINISTRATIVE AND FINANCIAL FUNCTIONING OF THE UNITED NATIONS

The implementation of procurement reform in the United Nations Secretariat

Fourteenth report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Secretary-General on the implementation of procurement reform in the United Nations Secretariat (A/C.5/50/13/Rev.1). The report, which was submitted to the General Assembly pursuant to its resolution 49/216 C of 23 December 1994, provides an update to the progress report submitted by the Secretary-General in June 1995 on the implementation of procurement reform in the United Nations Secretariat (A/C.5/49/67). During its consideration of the report, the Advisory Committee met with representatives of the Secretary-General, who provided additional information.

2. As indicated in paragraph 9 of document A/C.5/50/13/Rev.1, the Secretary-General has accepted most of the recommendations made by a High-Level Group of Experts in Procurement drawn from Member States. The review of the Group of Experts of the procurement process and related management issues at Headquarters, for field missions and in the field was completed at the end of December 1994. The Advisory Committee notes from annex II to the same document that action has started in respect of some of the recommendations by the Group of Experts. The actions were divided by the Group of Experts into two stages. The first stage comprises implementation of recommendations "in which either quick benefits could be gained or where the gestation period was relatively long"; and the second stage includes "actions needed to ensure that the United Nations Secretariat instituted a logistics organization that would provide efficient and cost-effective support for peace-keeping and other field operations" (A/C.5/50/13/Rev.1, para. 5).

3. The Advisory Committee believes that the implementation of the procurement reform and related management issues at Headquarters for the field missions and in the field is of fundamental importance to re-establish the confidence of Member States in the effectiveness, efficiency and responsiveness of the United Nations procurement operations. In the Advisory Committee's view, the expeditious and conscientious implementation of the recommendation of the Group of Experts, as well as those already indicated by the Board of Auditors, are the basis that will provide for a truly competitive, fair and transparent procurement process, with clear lines of authority and accountability.

4. The Advisory Committee points out that the report of the Secretary-General (A/C.5/50/13/Rev.1) provides information mainly on actions initiated by the Department of Administration and Management in the implementation of procurement reform. The Advisory Committee welcomes the progress made so far in the implementation of the reform measures; it regrets, however, that the report provides only a limited update to issues reported in document A/C.5/49/67 and does not report on procurement activities in other units under the authority of the Secretary-General. The Advisory Committee recalls, for instance, that in its report on the proposed programme budget for the biennium 1996-1997, it noted that procurement activities were being undertaken also in the Department for Development Support and Management Services. The Advisory Committee recommended that the Secretary-General review the situation with the view to merging the procurement services in the Department of Administration and Management and the Department for Development Support and Management Services and ensuring appropriate coordination with other United Nations procurement services. 1/

5. The Advisory Committee believes that the report of the Secretary-General should have been comprehensive and covered all the procurement activities of the Secretariat at its Headquarters, away from Headquarters and all field missions and operations. The Advisory Committee recommends that the Secretary-General submit to the General Assembly at its fifty-first session a full implementation report on procurement reform no later than 1 October 1996. The report should cover comprehensively all the procurement activities of the Secretariat, taking into account, as requested by the General Assembly in its resolution 49/216 C, the relevant comments and recommendations of the Board of Auditors, including those made most recently in its report for the biennium ended 31 December 1993, 2/ as well as the Advisory Committee's observations as indicated below. The report should include progress made on the measures now being proposed by the Secretary-General and accepted by the General Assembly, as well as on the proposed consequential changes in the financial regulations and rules and standard operating procedures. It should also include information on related procedural issues as those discussed in paragraphs 10 and 11 below, as well as on coordination with other United Nations bodies (e.g., the United Nations Office for Project Services and the Inter-Agency Procurement Services Office).

6. As indicated in paragraph 11 of document A/C.5/50/13/Rev.1, as part of the procurement reform, the United Nations Purchase and Transportation Service has been restructured and established as the Procurement and Transportation Division, effective 1 January 1996. The Advisory Committee recalls that in the proposed programme budget for the biennium 1996-1997, 3/ the Secretary-General proposed the upgrading of the post of the Division Chief from the D-1 level to

D-2 level. Upon review of the terms of reference of the post, in its first report on the proposed programme budget for the biennium 1996-1997, the Advisory Committee recommended to the General Assembly that the proposed reclassification of a D-1 level post to a D-2 level post be deferred until the Secretary-General's full report on the procurement reform is taken up at the fiftieth session of the General Assembly. 4/ In view of the limited nature of the Secretary-General's report (see para. 4 above), the Advisory Committee does not recommend at this stage acceptance of the reclassification of the post of Division Chief, Procurement and Transportation Division, to the D-2 level. The Advisory Committee will revert to this matter in the context of its examination of the Secretary-General's comprehensive report on the implementation of the procurement reform.

7. The Advisory Committee notes from paragraphs 14 and 15 of document A/C.5/50/13/Rev.1 that the Procurement and Transportation Division has been reorganized into two sections, namely the Commodity Procurement Section and the Support Services Section. The Commodity Procurement Section has been organized along the lines of commodity clusters whereby the staff resources in each cluster manage each transaction from start to finish. This restructure of the Commodity Procurement Section has allowed the removal of one level of supervision in the Procurement and Transportation Division, thus flattening the hierarchy and increasing operational flexibility and responsiveness to procurement demands. Upon inquiry, the Advisory Committee was furnished with the organization chart of the Commodity Procurement Section (see annex to the present report). The Section's staff resources comprise 24 Professional and 37 General Service staff (11 Professional and 25 General Service posts funded from the regular budget and 13 Professional and 12 General Service posts funded from the support account), organized in 10 clusters.

8. The Advisory Committee welcomes this development and recognizes, as pointed out by the Group of Experts, the need to integrate the procurement process so that it is managed more coherently. However, given the large number of clusters and staff in each cluster who will be responsible for the total process, the Advisory Committee cautions that these changes should be effected in a manner that will maintain necessary internal control mechanisms. Adequate lines of authority, supervision and accountability must remain in place as well.

9. The Advisory Committee notes from paragraph 44 of the Secretary-General's report that he intends to implement the reform in 1996, utilizing the current level of resources. The Advisory Committee was informed that that would be accomplished without affecting the level of services. As indicated in annex VI to document A/C.5/50/13/Rev.1, the volume of procurement orders processed by the Procurement and Transportation Division was $396.4 million in 1995, with 24 Professional and 37 General Service staff in the Commodity Procurement Section. As indicated below, this compares to the value of equipment and goods purchased by the United Nations Office for Project Services of $139.2 million in 1995, with 8 Professional and 17 General Service staff and the value of purchases by the Contracts and Procurement Service of the Department of Development Support and Management Services of $24.4 million, with 5 Professional and 13 General Service staff.

Comparative value of goods and services purchased in 1995 and staff resources

	Department of Administration and Management/ Procurement and Transportation Division	Department of Development Support and Management Services/Contracts and Procurement Service	United Nations Office for Project Services
Value of purchase orders (in millions of United States dollars)	396.4	24.4	139.2
Professional	24	5	8
General Service	37	13	17

10. The Advisory Committee believes that the staffing levels of the Procurement and Transportation Division, in proportion to the volume of procurement orders, are within an acceptable range. The Advisory Committee, therefore, recommends maintaining the current staff strength in the Division. The Advisory Committee will revert to this matter during its examination of the Secretary-General's report to the General Assembly at its fifty-first session on the status of procurement reform.

11. The Advisory Committee notes from paragraph 36 of document A/C.5/50/13/Rev.1 that a Supplier Relations Officer is to be designated in early 1996 in line with the recommendations of the Group of Experts (see annex II to the report, item 27). The Advisory Committee understands that the terms of reference are still under review and that this position will be made available within existing resources. The Advisory Committee would revert to this matter in the context of its review of the Secretary-General's report to be submitted to the General Assembly at its fifty-first session (see para. 4 above).

12. As indicated in paragraph 46 of document A/C.5/50/13/Rev.1, the role of contract administrators is still under review, and it is foreseen that they will ensure the effective implementation of contractual obligations, in particular where major contracts are concerned. The Advisory Committee requests the Secretary-General to report fully on the role of contract administration within the procurement area of the Division of Administration and Management in his report on the implementation of the procurement reform.

13. The Advisory Committee requests the Secretary-General to address, in its report to the General Assembly, the issue of responsibility in the Department of Peace-keeping Operations for procurement operations (see annex II to A/C.5/50/13/Rev.1, stage 1, item 3b). Furthermore, the Advisory Committee reiterates its request, as indicated in paragraph 4 above, that the Secretary-General review the procurement activities of the Department of Development Support and Management Services with a view to integrate them into those of the Department of Administration and Management; moreover, the Advisory

Committee believes that the procurement activities of the United Nations Secretariat should be coordinated as much as possible with those of the United Nations Office for Project Services and other entities such as the Inter-Agency Procurement Services Office, with the purpose of bringing about a closer working relationship and economies of operation, particularly in the sharing of information on vendors and supplier rosters (see para. 4 above).

14. The Advisory Committee notes from paragraph 22 of the report of the Secretary-General that, as recommended by the Group of Experts, revised delegation of procurement authority for peace-keeping missions has been granted world wide (see annex II to A/C.5/50/13/Rev.1, stage 1, item 8). Upon inquiry, the Advisory Committee was informed that, depending on the scope of the mission, delegated procurement authority would range from $70,000 to $300,000 for procurement orders. It was also indicated to the Advisory Committee that all restrictions for missions to procure only within a limited geographical area have been removed. The Advisory Committee also notes that, in accordance with the recommendations of the Group of Experts (annex II, stage 1, item 7), delegation of authority is being granted to procurement officers on an individual basis taking into account their experience, training and general expertise.

15. The Advisory Committee notes from paragraph 23 of document A/C.5/50/13/Rev.1 that to enable timely procurement of essential goods and services required for new missions and the maintenance of ongoing missions, new procedures were introduced under the authority granted to the Controller under financial rule 110.6 (see annex II, stage 1, item 10). The Advisory Committee was informed that, under the terms of a memorandum of understanding, agreement has been entered between the Department of Administration and Management and the Department of Peace-keeping Operations to commit up to 75 per cent of the estimated budget of certain mission-critical items, while awaiting budget approval. The Advisory Committee requested but did not receive a copy of the memorandum of understanding for these arrangements.

16. The Advisory Committee points out that under financial rule 110.21 "contracts shall be awarded to the lowest acceptable bidder". Therefore, as indicated by the Board, 5/ the first consideration in the procurement process is to ensure that goods and services are acquired at the best price and in accordance with United Nations rules and procedures. The Advisory Committee recommends that the Secretary-General report in detail on the delegation of procurement authority to peace-keeping missions and on the basis and cost effectiveness of removing restrictions for missions to procure only within a limited geographical area (see para. 14 above).

17. The Advisory Committee notes from paragraph 24 of the Secretary-General's report that progress in identifying and instituting system/requirement contracts has been modest. The Group of Experts identified this area of activity (i.e., contracts for specific value of goods and services that do not specify the exact quantities but that remain valid for a fixed time period) as one that would relieve much of the pressure experienced by procurement officers in finding sources and competitive prices for a large variety of items (see annex II to A/C.5/50/13/Rev.1, stage 1, item 11). The Advisory Committee recommends that more vigorous efforts be made by the Procurement and Transportation Division in

full cooperation with the Department of Peace-keeping Operations to identify the goods and services that may be appropriate for such contracts.

18. The Advisory Committee notes from paragraph 49 of the Secretary-General's report that the current fragmentation of some functions between various departments and offices is to be addressed early in 1996. The Advisory Committee understands that weaknesses in procurement planning identified by the Board of Auditors 6/ still persist in the Secretariat. The Advisory Committee was informed that the timely preparation of specifications by the user's department both in the field mission and within Headquarters continues to be inadequate. The Advisory Committee points out the need for further training of the staff involved, particularly in the Department of Peace-Keeping Operations. Furthermore, the Advisory Committee recommends that concerted efforts be made by the parties involved so that sufficient time is allowed to research the market properly and ensure that as many suppliers as possible are invited to bid. These efforts would generate genuine and tangible savings for the United Nations.

19. The Group of Experts determined that it had become common practice to resort to the immediate operational requirement procedure in the Department of Peace-keeping Operations, as a result of inadequate planning. The Board of Auditors had also pointed out that the abuse in the use of the procedure had resulted in more expensive transactions where savings could have been derived had careful requisitions been prepared in time. The Board had recommended that immediate operational requirement requests should be given only when absolutely necessary and should be supported with written justifications. 7/ The Advisory Committee agreed with the observations of the Board of Auditors (see A/49/547, paras. 25-33). The Advisory Committee trusts that appropriate measures will be taken to comply with recommendations of the Board. In this connection the Advisory Committee recalls that the General Assembly, in paragraph 5 of its resolution 49/216 A of 23 December 1994, had requested the Board of Auditors to report to the Assembly at its fifty-first session on the action taken on the Board's recommendations.

20. The Advisory Committee points out that an efficient inventory system and effective property control are prerequisites to cost-effective procurement. In this connection, the Advisory Committee notes from item 2 of annex II (stage 2) to the report of the Secretary-General that the Group of Experts recommended the establishment of full inventory systems of existing assets so that the United Nations assets are identified and their location and condition are established. The Advisory Committee recommends that high priority be accorded to this matter and that the Secretary-General should report on the steps taken in this regard in his full report on the implementation of the procurement reform.

21. The Advisory Committee regrets the slow progress achieved in the development of a supplier roster, a fundamental element of the implementation of the procurement reform. The Advisory Committee had requested but did not receive the draft paper on the "policy on vendor database maintenance" mentioned in the previous report on the implementation of procurement reform (A/C.5/49/67, para. 14). It appears that no further progress has been made on the elaboration of criteria for admission to the roster. The Advisory Committee notes from paragraph 29 of the Secretary-General's report (A/C.5/50/13/Rev.1) that the

roster would be completed by May 1996. The Advisory Committee recommends that vigorous efforts be made to develop a roster that will have a broader geographical base. The Advisory Committee also recommends that, in his next comprehensive report on the subject, the Secretary-General report on the criteria for admission to the vendor roster, approval and removal procedures and methods to maintain an active vendor roster. Furthermore, the Advisory Committee is of the view that consistent procedures, including the use of a standard registration form, should be followed by all United Nations units in the registration of vendors.

22. The Advisory Committee recalls that the Board of Auditors has consistently found in the past an overdependence on suppliers recommended by the requisitioning units. 8/ The Advisory Committee shares with the Board the view that this practice undermines the principle of segregation of responsibilities between requisitioning and procurement units. As indicated by the Board, the requisitioner should have as little influence as possible on the selection of suppliers and contractors. The Board had noted that the use of relatively narrow range of suppliers and contractors, usually suggested by requisitioners, together with the limited extent of bidding, creates an environment where it is unlikely that the United Nations would achieve best value for money. No information was provided to the Advisory Committee that would assure it that these practices have been discontinued.

23. In the view of the Board, the granting of exceptions under financial rule 110.19 for significant procurement (in amounts greater than $70,000) was disturbingly high. 9/ The Board had recommended that the nature of the exigency should be documented to provide sufficient evidence to support the decision and to serve as trail for verification and review. 10/ The Advisory Committee notes from paragraph 31 of document A/C.5/50/13/Rev.1 that there was a decline in the number of cases of exceptions from 344 cases in 1994 to 268 in 1995, where exigency was cited as the reason for requesting such exceptions. However, the Advisory Committee understands that such exigency was not always adequately substantiated. The Advisory Committee was informed that the underlying problem is in part poor procurement planning in the requisitioning units, particularly in the Department of Peace-keeping Operations. The Advisory Committee recommends that in all cases the reasons for seeking exception from competitive bidding should be adequately documented in writing by the requisitioning unit at the time of requesting such exception. The Advisory Committee requests the Board to monitor this aspect of the procurement process in the context of its regular audits.

24. The Advisory Committee believes that there is an urgent need to improve procurement planning, particularly in peace-keeping operations, to avoid situations where, as indicated by the Board of Auditors, 11/ requisitions are sent at very short intervals for the same item in small quantities. The Board had noted that such splitting up of requisitions and procurement should be avoided in the interest of a most cost-effective procurement operation. 11/ The Advisory Committee notes from paragraphs 20 and 21 of document A/C.5/50/13/Rev.1 that the Secretariat has been implementing a training programme for procurement personnel since April 1995, which will be expanded in 1996 to include management training of procurement managers. The Advisory Committee welcomes these developments, as well as the on-the-job training programme at Headquarters for

procurement personnel for peace-keeping missions and the rotation of procurement officers between Headquarters and the field for short-term assignments.

25. The Advisory Committee endorses the recommendation of the Group of Experts (annex II to A/C.5/50/13/Rev.1, stage 1, item 13) that in the absence of commercial generic specifications, the Department of Peace-keeping Operations should develop a complete list of United Nations-particular specifications to be provided to field missions.

26. The Advisory Committee notes from paragraph 32 of the Secretary-General's report that a position of a full-time Chairman of the Headquarters Committee on Contracts was established at the P-5 level, effective 1 June 1995. The Advisory Committee welcome these developments. The Advisory Committee understands that the terms of reference for this post have been prepared and that the Chairman of the Committee on Contracts will serve concurrently as Chairman of the Headquarters Property Survey Board. The Advisory Committee was informed that the Committee on Contracts would concentrate its efforts on the review of approximately the top 20 per cent of contracts by value, which might account for up to 80 per cent of the total value of contracts. The Advisory Committee recommends that the terms of reference of the Headquarters Committee on Contracts and its composition and procedures should be issued at once.

27. In the view of the Advisory Committee, it is important to standardize the format of presentation of documentation to the Committee on Contracts as well as delivery schedules to avoid "walk-in" presentations. 12/ The Board had indicated that members of the Committee on Contracts often received the documentation for review at very short notice with extremely tight delivery schedules, often on a Friday afternoon for consideration at its meeting on Tuesday of the following week. The Advisory Committee was informed that this practice has continued. The Advisory Committee believes that procedures should be issued with a view to standardizing the format of presentation and adherence to datelines for submission of documentation.

28. The Advisory Committee was informed that a staff member of the Office of Internal Oversight Services is participating in the Contracts Committee's meetings as an observer. The Advisory Committee recommends that this practice be discontinued immediately as it may compromise the role of the internal audit of procurement operations at Headquarters.

29. The Advisory Committee recalls that the Board of Auditors had indicated that in case of major procurement above a prescribed monetary threshold, contracting should be by open tender rather than by limited invitation. 13/ The Board had noted that the United Nations rarely made use of open advertising and that almost universally, bids/proposals were obtained through limited invitation from short-listed vendors. 14/ The Advisory Committee inquired as to the ongoing practice and the reasons for it. It was informed that owing to budgetary constraints the Procurement and Transportation Division rarely used open advertising but that it relied more and more on the use of electronic bulletin boards and on computer information networks (Internet). The Advisory Committee recommends that the Division make efforts to ensure that bidding is as open as possible and is accessible to potential new vendors. The Advisory Committee understand that currently the Division is not using actively all

United Nations facilities that may be available to advertise in a wider geographical area. For example, the Division could use the United Nations bi-monthly procurement publication, entitled Development Business of the Department of Public Information, as well as the United Nations information centres. This approach could also contribute to the achievement of the United Nations procurement policy goals of placing more of its procurement orders in a wider geographical area, including the developing countries.

30. The Advisory Committee notes from stage 1, item 16 of annex II to document A/C.5/50/13/Rev.1 that the Group of Experts recommended that public bid openings should be discontinued. The Advisory Committee does not share this view but believes that public openings of bids enhances transparency and fairness in the procurement process and therefore should continue. The Advisory Committee notes from paragraph 40 of the Secretary-General's report that the Secretary-General intends to prepare an annual report detailing the activities of the Procurement and Transportation Division. In this connection, the Advisory Committee recommends that the Secretary-General include in that report comprehensive statistics on procurement by the Secretariat, including country of origin of goods and services purchased and related value.

31. The Advisory Committee also notes from annex IV to the report of the Secretary-General that the value of cases recommended for approval in 1995 included letters of assist in 1995 amounting to $297.7 million. The Advisory Committee was informed that these instruments are issued directly by the Department of Peace-keeping Operations to acquire goods and services that are normally not available commercially. The Advisory Committee notes from paragraph 51 of document A/50/807 that the Working Groups on Reimbursement of Contingent-Owned Equipment had recommended an increase in the level of authority for letters of assist from $70,000 to $100,000. The Advisory Committee further notes that the Secretary-General is reviewing the request. The Advisory Committee points out that this issue is within the prerogative of the Secretary-General and that letters of assist are issued as an exception to the normal procurement process for such items as equipment, spare parts, including transport and medical services. The Advisory Committee recommends that the Secretary-General include in his report mentioned in paragraph 5 above the result of his review.

32. With regard to information technology in support of procurement activities, the Advisory Committee notes from paragraph 37 of the report of the Secretary-General (A/C.5/50/13/Rev.1) that a stand-alone procurement software package already in use in the Secretariat was being integrated with the Integrated Management Information System (IMIS). Implementation of Release 3 of IMIS, of which procurement functionalities were a part, were now scheduled for the first quarter of 1996. The Advisory Committee recalls, however, that when preparing its first report on the proposed programme budget for the biennium 1996-1997, it had been informed that a new version of the procurement package REALITY had been integrated into IMIS with a view to using the software world wide and to establishing a common catalogue system for procuring good and services. 15/ The Advisory Committee requests that information on the status of technological development in procurement services be provided in the report requested in paragraph 5 above.

33. The Advisory Committee notes from paragraph 43 of the Secretary-General's report that four officers on secondment from Member States had been assisting the Procurement and Transportation Division to meet the requirements of peace-keeping and other field missions. Upon inquiry, the Advisory Committee was informed that it was expected that only three officers on secondment would remain in the Division in 1996. In addition, the Advisory Committee notes from paragraph 47 of the same report that three experts loaned by Member States continue to work directly on procurement matters of the Secretariat. The Advisory Committee intends to give its views on this matter in the context of its report on the support account for peace-keeping operations.

34. The Advisory Committee trusts that, as indicated in paragraphs 51 and 52 of his report, the Secretary-General will provide his full support and be fully committed to establishing an efficient and responsive procurement system in the United Nations Secretariat, in an expeditious and cost-effective manner. The Advisory Committee further trusts that its observations will be taken into account in the formulation of the new procurement policy and in the establishment of revised procedures to provide for a truly competitive, fair and responsive process in the interest of all Member States.

Notes

1/ Official Records of the General Assembly, Fiftieth Session, Supplement No. 7 (A/50/7), para. IV.27.

2/ Ibid., Forty-ninth Session, Supplement No. 5, (A/49/5), vol. I, chap. II.

3/ Ibid., Fiftieth Session, Supplement No. 6 (A/50/6/Rev.1), vol. II, para. 26D.41.

4/ Ibid., Supplement No. 7 (A/50/7), para. VIII.42.

5/ Ibid., Forty-ninth Session, Supplement No. 5 (A/49/5), vol. II, chap. II, para. 114.

6/ Ibid., vol. I, chap. II, paras. 149-155.

7/ Ibid., vol. II, chap. II, paras. 73-81.

8/ Ibid., vol. I, chap. II, para. 146.

9/ Ibid., para. 139.

10/ Ibid., vol. II, chap. II, para. 9 (ii).

11/ Ibid., vol. I, chap. II, para. 153.

12/ Ibid., vol. II, chap. II, para. 78 and A/49/547, para. 31.

13/ Official Records of the General Assembly, Forty-ninth Session, Supplement No. 5 (A/49/5), vol. I, chap. II, para. 148 (b).

14/ Ibid., paras. 141 and 145.

15/ Ibid., Fiftieth Session, Supplement No. 7 (A/50/7), para. XI.10.

ANNEX

Organizational chart